



European Union

# Water and Beyond

EU transformative approaches  
for international partnerships

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REPUBLIC OF SLOVENIA  
MINISTRY OF FOREIGN AFFAIRS



European  
Commission



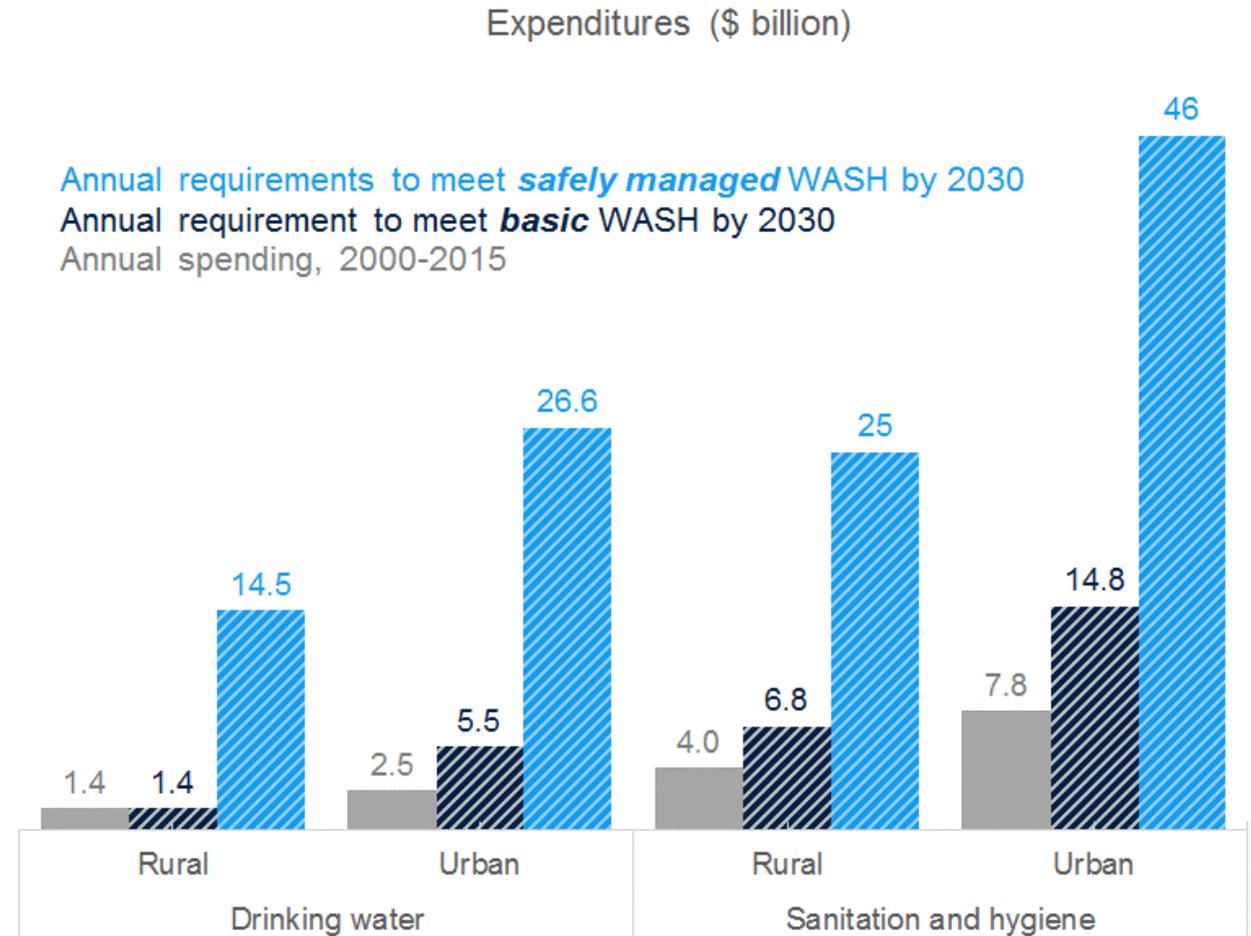
UNECE



WOMEN  
FOR WATER  
PARTNERSHIP

- Financing gap is still huge
- Foundational issues undermine creditworthiness:
  - Technical and Financial Viability
  - Policies, Institutions, and Regulations
- Poor pipeline projects

SDGs are unlikely to be met



Source: Hutton and Varughese. 2016. The Costs of Meeting the 2030 Sustainable Development Goal Targets on Drinking Water, Sanitation, and Hygiene. Washington, DC. World Bank.

The implications of not having enough financing

Too many water sectors are on a “slippery slope”: instead of continuously rebuilding failed infrastructure, more emphasis is needed on O&M

- Service providers manage the majority of total funding in the sector but many are not using these funds effectively
- Small incremental delays in maintenance and operational efficiency often lead to more systemic failures

Consumers use water inefficiently

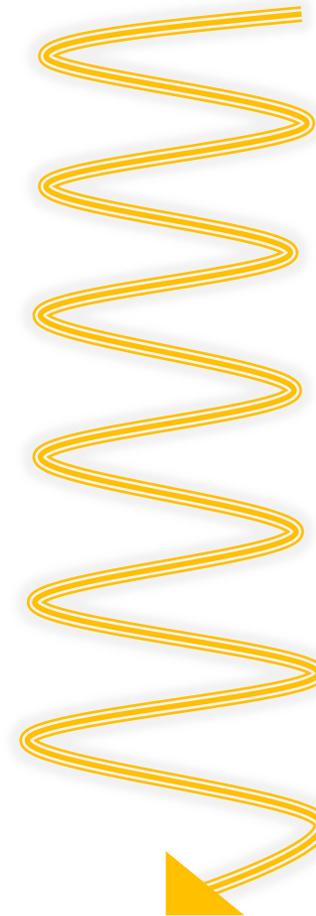
Investment, maintenance are postponed

Customers are ever Less willing to pay

Managers lose autonomy and incentives

Subsidies often fail to materialize

Motivation and service deteriorates further



Low tariffs, low collection

High usage and system Losses drive up costs

Service deteriorates

Service provider lives off state subsidies

Efficiency keep dropping

Service provider can't pay wages, recurrent costs or extend system

System assets go “down the drain”

Crisis, huge rehabilitation costs



## DELIVERING SDG<sub>6</sub> AND BUILDING BACK BETTER

# INNOVATIVE BUSINESS MODELS

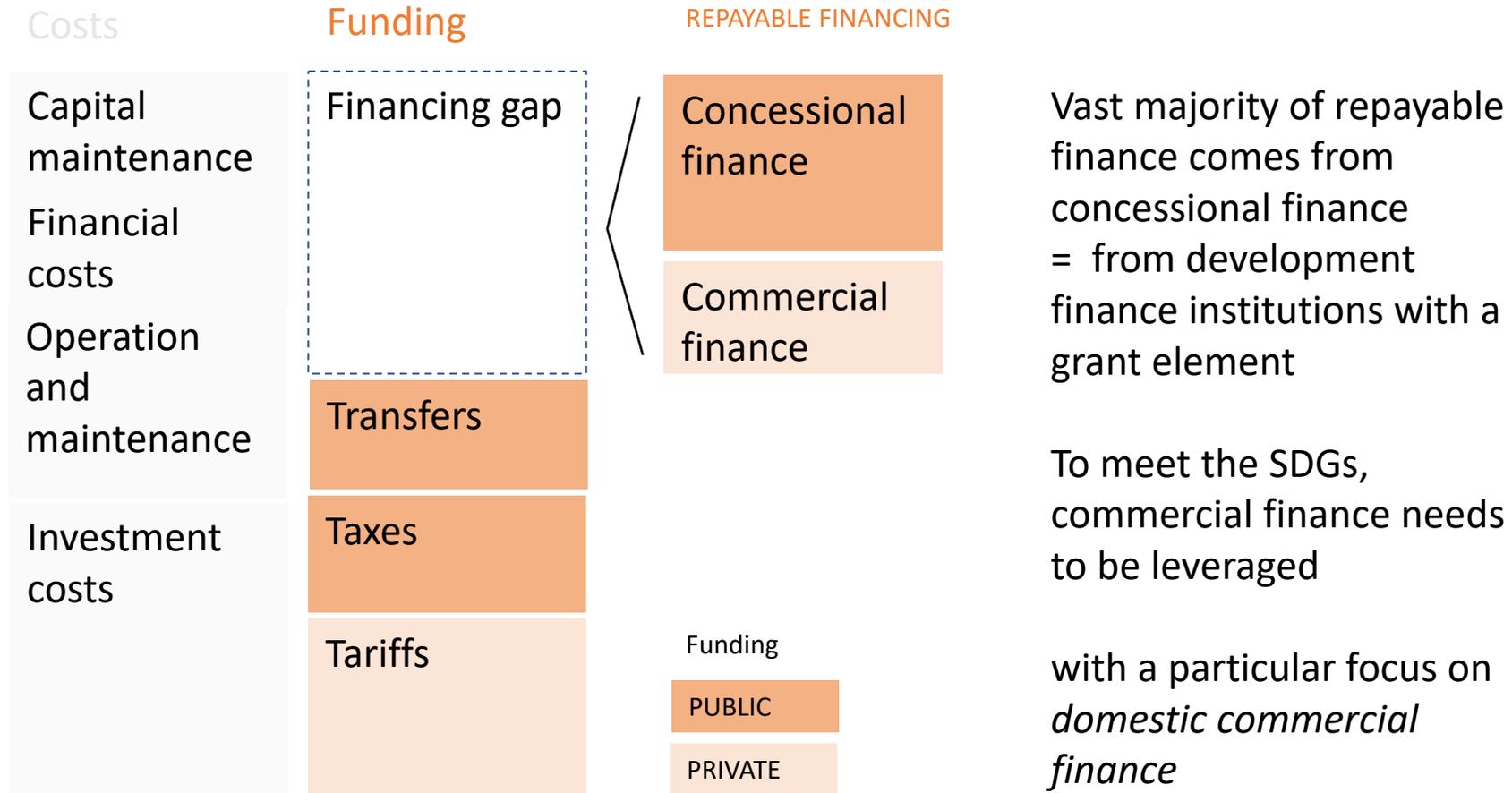
To deliver universal access, improve utility efficiency and address water security we need new and innovative approaches



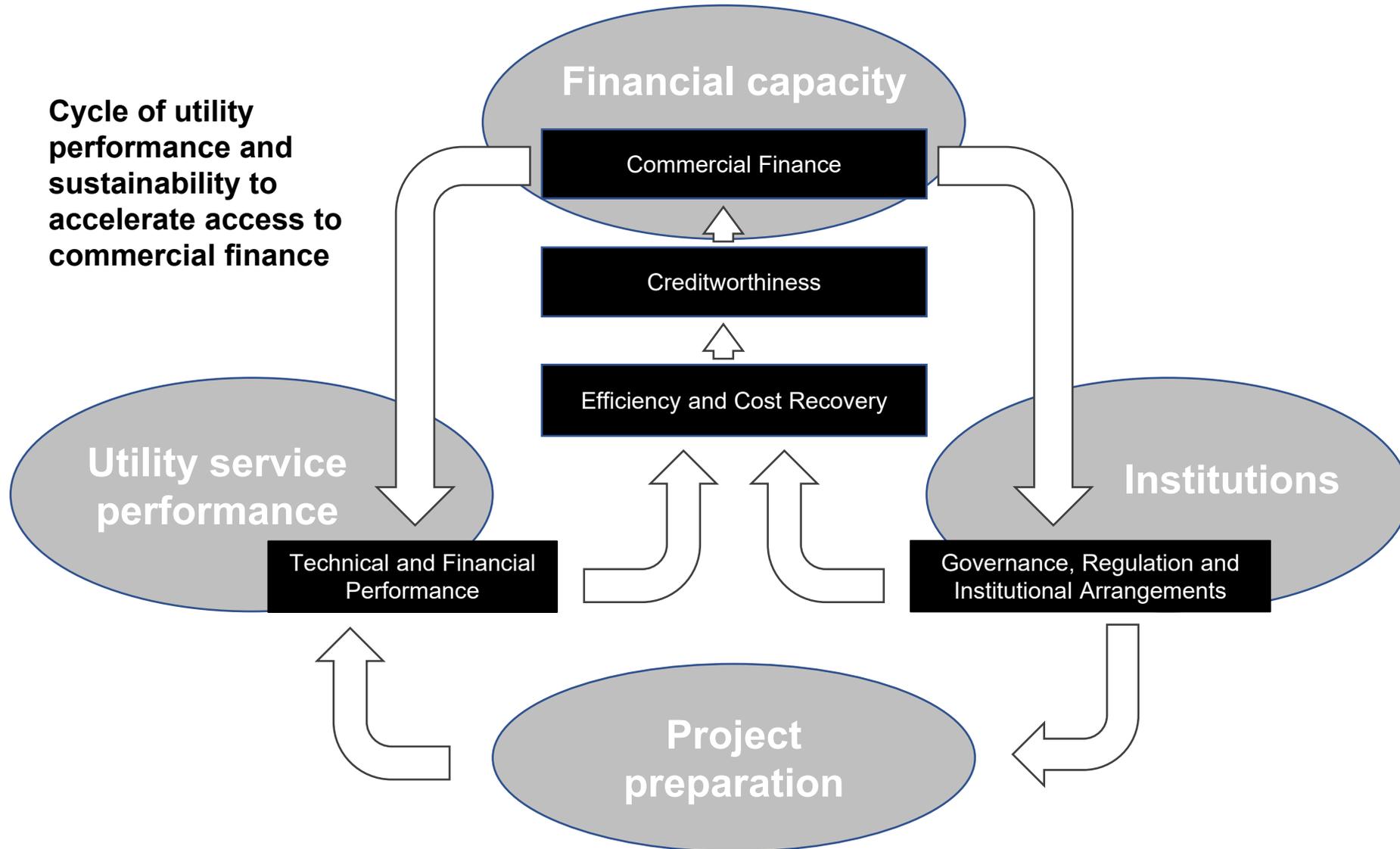
- 1. Technology deployment**
- 2. Procurement for at scale programs**
- 3. Crowding in finance**

# Water and Beyond Why is Commercial Finance necessary?

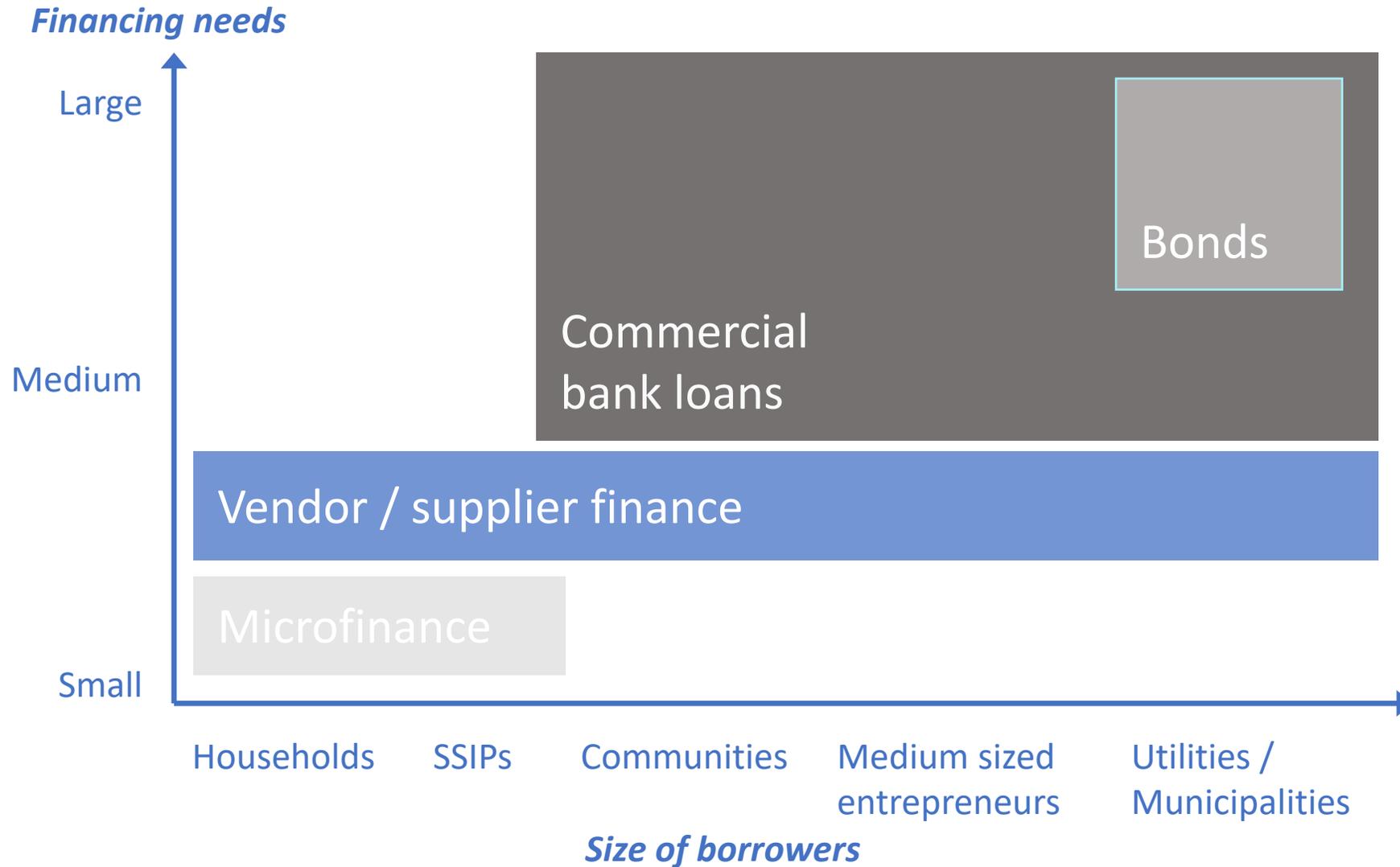
## Water service provider's finances



# Water and Beyond Foundations to commercial finance



# Water and Beyond Options for Commercial Finance



# Water and Beyond

## Blending strategies help ensure equity

BLENDING: smart public finance to leverage private finance

Grants / subsidies	Concessional loans / public finance	Credit enhancements
<p>Results-based subsidies, <i>e.g. to support access extension</i></p> <p>Capacity-building and training <i>e.g. training of borrowers and lenders</i></p> <p>Technical assistance <i>e.g. sensitize banks to market opportunities, assess water investment projects, project preparation, shadow credit ratings</i></p> <p>Support water sector pooling / grouping to access larger commercial finance providers</p>	<p>Provide liquidity to commercial finance providers</p> <p>Blend concessional with commercial finance to soften lending terms</p> <p>“First loss” agreements</p> <p>“Patient capital”: equity participations at below market-rate return expectations can signal commitment</p>	<p>Guarantees: reduce risk perception, leading to lower interest rates and longer tenors</p> <p>Revenue intercepts, escrow accounts: to secure access to funds and reduce risk of non-payment</p>

# INNOVATIVE FINANCING

## **India: Hybrid Annuity Model**

An innovative Hybrid Annuity Model is used to attract private investment in building and staying the course in operating wastewater treatment assets in the Ganga River Restoration Program

## **Angola: Luanda Bitá Water Supply Guarantee Project**

First ever IBRD loan guarantee of \$500M enabled Angola to leverage \$1.09B in private investment in bulk water supply supplemented by IBRD financing for network expansion for the poor

## **Kenya: Transition to Commercial Financing**

Kenya Water Financing Facility supports local commercial banks to tap into domestic financial markets for WSS utilities following policy and regulatory changes



- Significant knowledge has been created and has contributed to a growing consensus of what is needed to address financing constraint
- Foundational issues are essential and a growing focus.
- Complementary capital market development is needed.
- Leveraging commercial finance is necessary: universal access will not be met with public and concessional finance
- Blending commercial and public\concessional funds is a critical first step
- Need enhanced donor coordination.
- More efforts to link TA to lending.
- This is a long-term agenda.
- Some promising results but more effort at the country level necessary.

**Thank you very much!**

